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May 17, 2002

VIA COURIER

Mr. Kevin Brannelly, Director
Rates and Revenue Requirements Division
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Fitchburg Gas and Electric Light Company, Gas Division Rate Request
D.T.E. 02-24 -- Transmittal Letter

Dear Mr. Brannelly:

Pursuant 220 C.M.R. 5.00, FG&E has filed today tariffs, M.D.T.E. Nos. 110 through 117, representing a change in rates for its Gas Division. The tariffs are supported by the following.

- Testimony and Schedules of Mark H. Collin (Volume I, Exh. FGE-MHC - 1 through Exh. FGE-MHC - 7), to support and justify the requested total revenue requirement for the Gas Division;
- Testimony and Schedules of James L. Harrison (Volume III, Exh. FGE-JLH - 1), to support the fully Allocated Cost of Service Study and the Marginal Cost of Service Study that are used to design base gas rates for each rate class;¹

¹ Mr. Harrison's workpapers (Schedule JLH-5-8) will be provided for insert into Volume III.

- Testimony and Schedules of Dr. Samuel C. Hadaway (Volume II, Exh. FGE-SCH - 1), to support and justify the proposed allowed return on equity for the Gas Division;
- Testimony and Schedules of James H. Aikman (Volume II, Exh. FGE-JHA - 1), to support and justify the Depreciation Study that is used to establish the appropriate depreciation expense used in the determination of the Gas Division's cost of service; and
- Testimony and Schedules of Karen M. Asbury (Volume I, Exh. FGE-KMA-1), to support the revisions to Gas Division tariffs, rate design and rate impact analysis.

As demonstrated by this filing, FG&E seeks an increase in base revenues for its Gas Division of \$3,413,357, which represents an increase of 15.0% over 2001 annual gas revenues. As described in the Testimony of Mr. Collin, this overall increase reflects an adjustment to the revenues derived from the base rates for the two functional components of the Gas Division: distribution and gas production. The reasons for the rate change are discussed below.

Since 1997, FG&E's net investment in the Gas Division as measured by rate base shows an increase of 50%. While these investments were necessary to ensure safety and reliability of the gas distribution system, the Gas Division's sales have been flat. Based on the the test year 2001 cost of service , FG&E's gas rate levels are not sufficient to permit FG&E the opportunity to recover the cost of serving its customers and provide FG&E with a reasonable opportunity to earn its authorized rate of return. In 2001, the Gas Division recorded a net loss. In addition, FG&E has restructured its gas operations to accommodate the unbundling of gas services and offer customer choice and supplier access to its gas distribution system and customers. These changes have required new investments by FG&E.

Finally, on April 16, 2002, pursuant to the Department's order in D.T.E. 99-84, the Gas Division filed its Performance Based Regulation Plan ("PBR Plan"), docketed as D.T.E. 02-22. Major components of the PBR Plan include the implementation of service quality standards and rate mechanisms that impose penalties if FG&E's service quality falters. If approved, the PBR Plan will have a price cap and a term of ten years. The Gas Division's rates must be set at the start of the PBR Plan to a level that is just and reasonable and that will permit FG&E the opportunity to earn its allowed return. Simultaneously with this filing, FG&E is filing a Motion to Consolidate this Gas Division Rate Request, the Electric Division's Rate Request and the Gas and Electric PBR cases.

FG&E has been attentive in this presentation to present its revenue requirement, cost of service and rate design in compliance with the Department's rules and regulations and ratesetting precedent. The filing is based on test year 2001 information, with adjustments

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consistent with the Department's articulated precedent. Each adjustment to the Gas Division's test year information has been described fully in the testimony supporting the rate change. FG&E seeks the Department's approval of its rate request.

Please note that the filing contains also a Motion to Consolidate the Gas Division Rate Request with the Electric Division Rate Request, and both Rate Requests with the Gas and Division PBR Plan filings made on April 16, 2002. Please also note that Mr. Harrison's workpapers (Volume III, Sch. JLH - 5-8) will be available shortly and we have left a place for their insertion in the binder.

Please do not hesitate to contact us if you have any questions about this filing.

Very truly yours,



Patricia M. French
Meabh Purcell

MP/ags

Enclosures

cc: Mary L. Cottrell, Secretary, DTE
Paul Afonso, General Counsel, DTE
Hon. David O'Connor, Division of Energy Resources
Todd Shimkus, Vice President, North Central Mass. Chamber of Commerce

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